Sunway Construction (SCGB MK)

Rising Above And Beyond

	BUY (Maintained)
Share Price	RM7.50
Target Price	RM7.88
Upside	5.1%

Highlights

- Suncon reached a record-high orderbook of RM8.8b after securing an additional change order for two DCs in Johor recently. We remain confident that the group shall achieve its orderbook replenishment of RM6b in 2026F.
- Suncon's implied dividend yield of 4.8-6.5% for 2026-27 (based on 100% dividend payout assumptions) remains appealing. **Maintain BUY with target price of RM7.88,** which implies 22x 2027F PE.

Analysis

- **Orderbook target not far off from RM6b target for 2026F.** Following recent contracts wins, Sunway Construction (Suncon) has secured about RM4.2b in new jobs ytd. Management previously targeted to secure a RM6b orderbook in 2026F, which we opine is highly attainable, well supported by accelerating local infrastructure job flows and DC-related contracts.
- **Recently secured RM664m in additional change orders for two Johor DCs.** Earlier in June, Suncon announced that it had secured a RM664.4m in change of orders to project service requests for two DCs. This change of orders is related to the two DC projects in Johor which was secured from a US-based MNC earlier in April, bringing total contract value to about RM865.6m currently. We also understand that the secured works for these two Johor DCs are related to substation works only, and do not rule out the possibility that Suncon will also tender for the core and shell or other mechanical and electrical-related segments for these DCs. PBT margins for the substation works are estimated to be about 8-10%.
- **Earnings growth well supported by outstanding orderbook and tenderbook pipelines.** Suncon's current outstanding orderbook stands tall at record high of about RM8.8b (>1x orderbook cover), with over RM13b-14b tenderbook pipeline. The group secured RM4.2b in contracts ytd, with plenty of low-hanging contract opportunities including: a) multiple data centres contracts (RM4b-6b), b) internal project flows from parent company Sunway Berhad (Sunway) (RM1b), and c) public infrastructure projects such as Penang LRT and MRT 3 civil packages (landbank acquisition completing in end-26).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,522	5,339	5,337	5,672	5,675
EBITDA	279	469	483	504	522
Operating profit	262	448	454	478	499
Net profit (rep./act.)	187	362	435	462	486
Net profit (adj.)	167	425	435	462	486
EPS	13.0	33.0	33.7	35.8	37.7
PE (x)	57.8	22.7	22.2	20.9	19.9
P/B (x)	11.0	8.9	10.9	10.9	11.0
EV/EBITDA (x)	31.0	18.5	17.9	17.2	16.6
Dividend yield (%)	1.1	6.7	6.5	4.8	5.1
Net margin (%)	5.3	6.8	8.1	8.1	8.6
Net debt/(cash) to equity(%)	(32.5)	(156.4)	(163.3)	(178.4)	(182.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	24.7	36.8	44.0	52.0	55.2
Consensus net profit	-	-	437.5	494.7	524.0
UOBKH/Consensus (x)	-	-	0.99	0.93	0.93

Source: Sunway Construction, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,331.3
Market cap (RMm)	10,024.5
Market cap (US$m)	2,459.4
3-mth avg daily t'over (US$m)	5.2

Price Performance (%)

52-week high/low				RM7.2/RM4.3
1mth	3mth	6mth	1yr	YTD
5.0	15.8	29..4	30.7	33.0

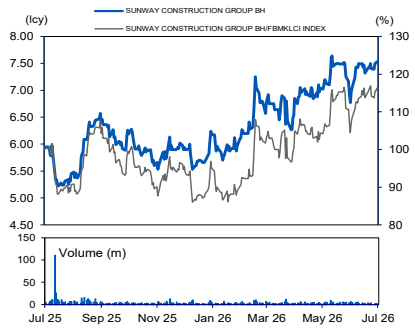
Major Shareholders %

Sunway Holdings Sdn Bhd	53.0
Sungei Way Corp Sdn Bhd	7.1
Employees Provident Fund Board	4.2

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.69
FY26 Net Debt/Share (RM)	(1.13)

Price Chart



Source: Bloomberg

Company Description

A leading construction company in Malaysia.

- **DC-powered growth narratives remain exciting.** Suncon secured three DC contracts worth RM2.94b in 2025, and another approximately RM4.2b in DC contracts ytd in 2026. The group currently has three completed and 10 ongoing DC projects with combined 450MW IT load, with DC works making up about 70% of total outstanding orderbook. Of the current tenderbook of about RM15.3b (as of end-1Q26), above 90% are DC-related. Suncon is also still bidding for a few DC projects with a combined IT load of over 800MW (estimated value of RM14b-15b) that may be awarded within 2026-27. Overall, we assess that Suncon is in a good position to win several DC bids within 2026-27. This will lift the group's overall margins as a DC has a shorter construction period and better profit margins.
- **Internal job flows supporting growth trajectories.** We forecast a RM1b orderbook replenishment from Suncon's parent company, Sunway Berhad, in 2026. This mainly comes from potential internal project flows in the pipeline including: a) Sunway Medical's hospital expansion, b) Sunway's new property launches of RM2b-3b p.a. in the coming years, c) multiple capacity expansions of medical centres, and d) potential renovation and refurbishment works for Sunway's existing hotels and malls. We believe that these internal projects will be doled out by Sunway in stages throughout 2026-27, and earnings translation is likely to be spread out across years.
- **Valuations remain reasonable with attractive yield and capital management upside.** Suncon is in a net cash position of about RM1.2b currently, reflecting an improving trend over the last two years following better earnings and improved cash flow conversion. Adjacent with the yoy earnings growth, we forecast a 100-143% dividend payout ratio in 2026-28, implying a lush prospective yield of 4.8-6.5%. We also do not rule out further special dividends as the group has sufficient room for better capital management.

Valuation/Recommendation

- **Maintain BUY with target price of RM7.88,** which is pegged to 22x 2027F PE (+1SD above five-year mean of 18x). We deem this valuation as fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth ahead.
- **Key upside risks to our rating and target price include:** a) higher-than-expected contract wins, b) escalating rollout of mega projects, and c) improving institutional or foreign shareholdings which will further tighten the stock's liquidity (floating shares of about 20%).

Earnings Revision/Risk

- Maintain earnings forecasts.

Environment, Social, Governance (ESG) Updates

Environmental

- Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution.

Social

- Work with local authorities and communities to ensure projects' success.

Governance

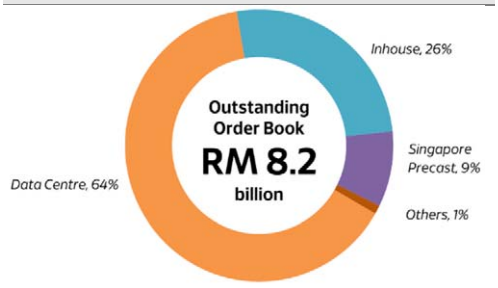
- Independent directors (four out of seven) comprise the majority of the board.

Outstanding Orderbook As Of End-1Q26

Projects	(RMm)
JHB1X0 Data Centre	653
K2 Phase 2 Data Centre	53
RTS Link Package 1B & 5	28
Daiso Warehouse	25
PSR -MNC	124
PSR – MNC - JB01	153
PSR – MNC - JB02	88
General DC Contractor Work - Shell 1 - MNC	1,039
General DC Contractor Work - Shell 2 - MNC	1,362
Serendah DC	1,750
India Highways	63
Others	7
Total External (A)	5,345
RTS TOD	1,185
Sunway Square Superstructure+VO	124
SW Ipoh Mall	764
Sunmed PH3 fit-out	15
Total Internal (B)	2,088
Precast Concrete (C)	724
Grand Total (A+B+C)	8,157

Source: Suncon

Orderbook



Source: Suncon

Segmental Forecasts

(RMm)	2025	2026F	2027F
Revenue	5,339	5,337	5,672
- Construction	5,132	5,013	5,501
- Precast Concrete	207	324	171
Operating profit	448	454	478
- Construction	446	418	460
- Precast Concrete	2	36	19
Orderbook replenishment assumptions			
- Construction	5,200	6,000	6,000
- Precast Concrete	300	300	300

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	5,339	5,337	5,672	5,675
EBITDA	469	483	504	522
Deprec. & amort.	21	29	26	23
EBIT	448	454	478	499
Associate contributions	15	17	19	20
Net interest income/(expense)	62	95	104	113
Pre-tax profit	526	566	601	632
Tax	(123)	(124)	(132)	(139)
Minorities	(40)	(7)	(7)	(7)
Net profit	362	435	462	486
Net profit (adj.)	425	435	462	486

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	122	111	104	99
Other LT assets	656	759	778	797
Cash/ST investment	2,000	1,705	1,777	1,747
Other current assets	1,646	1,600	1,653	1,609
Total assets	4,424	4,365	4,395	4,391
ST debt	158	131	105	79
Other current liabilities	2,945	2,936	3,122	3,113
LT debt	143	119	95	71
Other LT liabilities	10	10	10	10
Shareholders' equity	1,087	891	884	876
Minority interest	81	88	95	102
Total liabilities & equity	4,424	4,365	4,395	4,391

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	1,617	490	609	532
Pre-tax profit	526	566	601	632
Tax	(107)	(124)	(132)	(139)
Deprec. & amort.	21	29	26	23
Associates	(15)	(17)	(19)	(20)
Working capital changes	1,133	37	134	36
Other operating cashflows	60	0	0	0
Investing	(27)	(18)	(19)	(19)
Capex (growth)	(44)	(18)	(19)	(19)
Proceeds from sale of assets	24	0	0	0
Others	(7)	0	0	0
Financing	(608)	(681)	(519)	(543)
Dividend payments	(305)	(631)	(469)	(493)
Proceeds from borrowings	(422)	(50)	(50)	(50)
Others/interest paid	119	0	0	0
Net cash inflow (outflow)	982	(209)	72	(30)
Beginning cash & cash equivalent	936	1,914	1,705	1,777
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	2,000	1,895	1,917	1,912

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	8.8	9.0	8.9	9.2
Pre-tax margin	9.8	10.6	10.6	11.1
Net margin	6.8	8.2	8.1	8.6
ROA	11.4	13.9	14.6	15.4
ROE	42.0	56.9	60.7	64.2
Growth				
Net profit (adj.)	154.2	2.2	6.2	5.3
Leverage				
Debt to total capital	25.7	25.6	20.5	15.4
Debt to equity	27.6	28.1	22.7	17.2
Net debt/(cash) to equity	(156.4)	(163.3)	(178.4)	(182.2)

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